Alberta Government

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GAS ROYALTY OPERATIONS INFORMATION BULLETIN March 2014

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PLEASE ENSURE YOUR PRODUCTION ACCOUNTANTS RECEIVE A COPY OF THIS DOCUMENT

A. PRICING, ROYALTY RATES AND TRANSPORTATION INFORMATION

For Pricing, Royalty Rates and Transportation Information for December 2013, refer to the Information Letter.

The monthly default sulphur price for January 2014 is $42.96.

Annual Sulphur Default Price

2008	2009	2010	2011	2012
$297.38	$5.83	$44.69	$116.36	$98.02

B. NOTICES

PAD Discrepancy Reports

Effective May 7, 2012 the "Production Allocation Discrepancy" (PAD) report was made available for Industry's use to validate that residue sales gas and extracted (processed) liquids do not exceed the raw gas production, beyond a reasonable threshold. These discrepancies are reported effective with the 2009 production year. The 2009 production year became statute barred on December 31 2013. Therefore, although the Petrinex PAD reports continue to reflect 2009 discrepancies, please note that the Department of Energy will not accept amendments for the 2009 production year if a request had not been made to the DOE by December 31, 2013 to keep the 2009 year open for these filings. Should the Petrinex PAD reports reflect discrepancies in the future for statue barred years, the Department of Energy will not accept amendments for statute barred years. The Department of Energy does not issue PAD discrepancy reports for a production year once it becomes statute barred.

Alberta Royalty Framework – Transition Rate (ARF-T)

The Alberta Royalty Framework- Transition Rates (ARF-T) were applied effective the January 2009 production period to the December 2013 production period. Effective the January 2014 production period, ARF-T well events will be calculated royalty using the Alberta Royalty Framework (ARF) rate formula, unless they qualify for a new well royalty rate. Any amendments to production periods prior to 2014 for wells that were ARF-T well events will be calculated using the transition rates. If you have any questions, please contact Joyce Chen or Nicole Le Blanc of Volumetric & Cost Reporting at VCR1@gov.ab.ca.

Changes to Points of Contact for Volumetric and Cost Reporting

Volumetric and Cost Reporting (VCR) is currently undergoing some changes to its business structure, in order to more effectively respond to client requests.

As a result of the business structure change the contact information will change as follows. Effective May 1, 2014, the main points of contact for all clients will be:

Voicemail:	780-422-8727
Email:	VCR@gov.ab.ca

Please note that during the transition period starting May 1, 2014, when you contact VCR using the following telephone numbers: 780-644-1201 (VCR1), 780-644-1202 (VCR2) and 780-644-1203 (VCR3), a voicemail will prompt you to redirect your call to 780-422-8727. An auto response message will also be generated to emails sent to VCR1@gov.ab.ca, VCR2@gov.ab.ca and VCR3@gov.ab.ca asking you to redirect your email to VCR@gov.ab.ca.

Further details regarding the business structure changes will be provided in April's Information Bulletin.

Please contact Oana Jurgea at 780-422-9273 or oana.jurgea@gov.ab.ca for any questions or concerns.

C. MONTHLY INFORMATION

January 2014 Royalty Due April 30

- **Royalty clients are to remit the total amount payable shown on the April 2014 Statement of Account by April 30, 2014.** If the amount payable includes accrued current period interest, the interest has only been accrued to the statement issue date. Clients must also include the additional interest that has accrued from the statement issue date to the date of payment, using the per diem amount provided.

- **The April 2014 Statement of Account shows your amount payable as of the Statement issue date. It includes any outstanding balances from your previous statement, your January 2014 invoice amount and any applicable current period interest charges. It also identifies refunds resulting from overpayments.**

- Current period interest will not be charged on current invoice charges for the production month of January if it is paid in full by April 30, 2014.

- Current period interest will accrue on any overdue charges commencing the first day after the due-date until it is paid in full.

  Note: If the due date falls on a non-business day, the next business day will apply as the due date *except for the month of March due to the Government of Alberta's fiscal year end.* In this situation, the due date will apply previous to the non-business day as the due date.

- Cheques are payable to the Government of Alberta.

January 2014 VA4 Due March 15

The VA4 forms for the production month of January 2014 are due in the department offices by March 15, 2014.

Note: If the due date falls on a non-business day, the next business day will apply as the due date for VA4 forms.

Petrinex Deadline Submissions

The Petrinex deadline for SAF, OAF, and Volumetric submissions are posted on the Petrinex website "Reporting Calendars" under Calendars. ***Changes to this calendar will be posted on the Petrinex website home page in "Broadcast Messages."***

Interest Rate March 2014

Alberta Energy's interest rate for March is 4.00%.

December Provisional Assessment Charge

The summary of Provisional Assessment Charges for all production periods in the December 2013 billing period was:

First Time Provisional Assessment	Reversals of Provisional Assessments (Net)	Net Provisional Assessment
$3,537,676.49	($1,334,937.67)	$2,202.738.82

December Penalty Charges

The penalty table below shows at the form level, the total penalty charges and reversals, for the December 2013 billing period.

Forms	Penalty Charges	Penalty Reversals	Net Penalty Charges for 2013/12
AC2	$13,200	($7,200)	$6,000
AC4	$0	$0	$0
AC5	$600	$0	$600
NGL1	$0	$0	$0
VA2	$0	$0	$0
VA3	$0	$0	$0
VA4	$100	$0	$100
Total	**$13,900**	**($7,200)**	**$6,700**

Production Allocation Discrepancy (PAD) Potential Royalty Impact

As of the December 2013 billing period, the potential royalty dollar impact is estimated as $8.1 million, distributed as follows by production year:

2011	2013
$5.5 million	$2.6 million

NOTE: These values are not intended to show that Crown royalty has been understated but do illustrate the consequences of incorrect reporting.

Well Event Measured Depth Determination Letter

The department has issued a "Well Event Measured Depth Determination Letter" under the Report Package DOE – Gas to facility operators via Petrinex on March 1, and March 15, 2014. This letter shows the confirmed Measured Depth (MD) of each active well event that will be used to calculate the Depth Factor (DF) of the quantity component rate under the Alberta Royalty Framework formula. A well event that is not listed on the letter and does not have a confirmed MD will receive a DF of 1. When the changes to the MD are confirmed by the department, a letter is issued to a facility operator who reports changes through Petrinex to well event attributes affecting MD. All changes to the MD are applied on a go forward basis only. Facility operators are advised to submit well event attribute changes by the last day of the calendar month in order for timely determination of MD.

NGDDP Confidential Wells

Wells designated as "confidential" will be reviewed prior to the removal of the "confidential" status, if the directional surveys and completion reports are provided to the department. Please send directional surveys and completion reports to GasRoyaltyPrograms@gov.ab.ca

If you have any questions, please contact Lily Hiew at 780-427-1550.

D. INFRASTRUCTURE DATA CHANGES

Client ID Listing

The BA Identifiers Report is a directory of Business Associate (BA) names, codes, status (e.g. struck, active, amalgamated, etc.), status effective dates, and effective August 2004, includes Working Interest Owner (WIO) role start/end dates.

This report is also published daily on the Petrinex website.

The Department reminds Business Associates to review their WIO role to ensure that the start and end dates are reflected correctly. If the BA does not have an active WIO role, the operators cannot allocate volumes to the BA for the relevant production periods through the SAF/OAF allocations.

- If a BA has a WIO role, then that BA can receive SAF/OAF allocations from the WIO role start date forward.
- If a BA has a WIO role with an end date, then they can only receive SAF/OAF allocations from the WIO role start date until the end date. Any SAF/OAF allocations after the end date will be rejected.
- If a BA does not have a WIO role start date, then that BA cannot receive SAF/OAF allocations.

Please contact Client Registry at 780-422-1395, if you have any questions regarding the information supplied on this listing.

Client Status Changes

Clients must ensure that all royalty documents are completed using only valid client names and IDs. It is critical that royalty clients use current legal client names and their appropriate IDs on all documents to ensure accurate royalty calculation and to prevent provisional assessment and penalties. Rejects will occur when invalid IDs are used.

If you require information regarding client names or IDs, please contact Client Registry at 780-422-1395.

Nova Tolls - Multiple Gas Reference Prices

Royalty information related to the implementation of the Factor Model negotiated with industry for determining Multiple Gas Valuation Prices is provided on the Natural Gas website's Royalty Related Information page under Facility Royalty Trigger Factors and Meter Station Ties.

E. REMINDERS

Monthly Sulphur Corporate Average Price Calculation – VA4 Form

The Department requires royalty clients with an annual sulphur production of 30,000 tonnes or greater in the 2013 production year to file VA4 forms monthly, beginning with the January 2014 production month. The VA4 form is due on or before the 15th day of the second month following the respective production month. A royalty client whose annual sulphur production is less than 30,000 tonnes may choose to file the VA4 forms monthly beginning with January's production month; however, if this choice is made, the

client must file VA4 forms for the entire year. The Department will use the VA4 forms to determine each client's monthly Sulphur Corporate Average Price (S-CAP) and the monthly sulphur default price. We calculate each month's sulphur default price as the weighted average unit value of all arm's length sales for all clients who filed VA4 forms

for that month. The Department will value and invoice the Crown royalty share of sulphur production monthly using the respective S-CAP price for clients who file VA4 forms, and the

sulphur default price for clients who chose not to file VA4 forms. The VA4 form is subject to $100 in late filing penalties for each month or part of the month the form is past due. The VA4 form for the production month of January 2014 is due in the department by March 17, 2014.

Royalty clients who file monthly VA4 forms must file annual VA3 forms. The VA3 form remains the primary sulphur valuation tool and the S-CAP determined from each VA3 will replace the entire year's monthly prices determined from the VA4 forms. The VA3 is due on or before April 15th of the year following the year of production. Interest is charged/paid on the Crown royalty difference when adjusting from monthly to annual valuation. The VA3 form is subject to a one-time $1,000 late filing penalty.

The following royalty clients must submit VA4 forms effective with the 2014 production year, which includes any pricing information for each of its consolidated/amalgamated entities:

Client ID	Client Name	Client ID	Client Name
0017	IMPERIAL OIL RESOURCES	0RC3	DIRECT ENERGY MARKETING LIMITED
0026	ENCANA CORPORATION	0Z0H	HARVEST OPERATIONS CORP.
0BP8	PENN WEST PETROLEUM LTD.	A2F0	SHELL CANADA ENERGY
0CW8	COMPTON PETROLEUM CORPORATION	A2TG	TAQA NORTH LTD.
0F3F	DEVON CANADA	A5R5	PENGROWTH ENERGY CORPORATION
0HE9	CANADIAN NATURAL RESOURCES LIMITED	A5RD	ENERPLUS CORPORATION
0JL8	APACHE CANADA LTD.	A68P	CQ ENERGY CANADA RESOURCES PARTNERSHIP
0R46	HUSKY OIL OPERATIONS LIMITED	A6GD	SINOPEC DAYLIGHT ENERGY LTD.

Allowable Cost (AC) and Sulphur Corporate Average Price Calculation (VA3) Submissions for Production Year 2013

This is a reminder for royalty clients that Allowable Cost (AC1, AC2, AC3 and AC5) and Annual Corporate Average Price Calculation - Sulphur (VA3) submissions for the 2013 production year are due on the following dates:

Form Type	Due Date	Penalty
AC1	March 01, 2014	-
VA3	April 15, 2014	$1,000/One time only
AC2	April 30, 2014	$100/Form/Month upon due date to a maximum of $600
AC3	May 15, 2014	-
AC5	May 15, 2014	$100/Form/Month upon receipt to a maximum of $600

All allowable cost submissions (initial and amended filings for current and prior production years) by Facility Cost Centre (FCC) operators are required to be completed on Petrinex. It is mandatory for operators to submit their capital and operating costs (AC2) and for custom users to submit their custom processing fees (AC5) on Petrinex. A reallocation of capital and/or operating costs (AC3) is optional. Even though submissions remain voluntary for non-operators, they are strongly encouraged to use Petrinex to submit and retrieve their AC3 and AC5 data.

Annual allowable cost submissions are processed nightly except during an invoice run cycle. New facility cost centre set-ups are processed within four (4) hours of receipt if received in the morning, with an overnight turnaround if received in the afternoon. Processing of new facility cost centre set-ups continue during an invoice run cycle.

The business rules and submission method for VA3 submissions remain the same with notification from the department informing clients that their submissions have been processed. Sulphur Corporate Average Price submissions are processed as they are received, except during an invoice run cycle.

The department encourages timely submissions to allow sufficient turnaround time for corrections. The font size on faxed forms must be 10 pt or greater and should not be bold. Penalties will apply where valid system acceptable submissions are not received by the filing deadline. Barring the department's responsibility, inability to submit annual cost submissions on Petrinex and/or illegible script will not reverse a penalty once imposed.

If you have any questions regarding this, please contact your Volumetric & Cost Reporting portfolio representative, as identified in Section F of this bulletin.

Capital and Operating Cost Allowance Filing - Expected AC2 Reports on Petrinex

The Crown deducts allowances for costs incurred and paid in Alberta for compressing, gathering and processing its royalty share of gas and gas products. Annual capital and operating cost allowances are combined on the AC2-V4 with an ability to allocate these cost allowances among working interest owners and multiple delivery facilities. The FCC operator, on record at year end, is responsible for filing the AC2-V4.

The Expected AC2 Report identifies the FCC operator as of a specific date and is generated to help FCC operators in verifying their status as well as the effective date. It also identifies whether a valid AC2 was submitted for a production year.

The Expected AC2 Report is grouped by an Alberta Energy Regulator (AER) Facility and related FCC. The report displays the following:

- Facility ID and Facility Name
- FCC ID and FCC Name
- "Y"(yes) and "N"(no) Indicators to identify whether or not the FCC is fully depreciated
- The FCC Operator Effective Date
- "Y"(yes) and "N"(no) Indicator to determine whether or not an AC2 was submitted for the production year
- All consolidated/amalgamated companies have been included within this report, where applicable.

The information in the report reflects the department's records as of the file preparation date and does not reflect submissions subsequently received and/or processed. Any submission (AC1, AC2, Invoice Consolidation Concurrence – ICC1, etc.,) that is processed after the report date is not shown. Please note that absence of a company name or FCC from these reports is not an acceptable reason to waive a penalty once assessed.

The Expected AC2 Report is available in PDF, TXT and CSV formats and is generated weekly during the Gas Cost Allowance reporting season. Expected AC2 reports will be available on Petrinex weekly, from the first week of February 2014 to the last week of May 2014.

If you are not the operator of the FCC identified on the report, please submit a Facility Cost Centre Set-Up/Change (AC1-V2) identifying the change in operator and its effective date. An AC1 submission identifying an FCC change in operator is due on or before the last day of the month following the production month in which the change occurred.

Please note that FCCs that are shut-in or terminated for an entire production year will not appear on the report. Operators of fully depreciated (zero remaining useful life) FCCs remain responsible for AC2-V4 submissions. Submissions are required to ensure the department has correctly identified Capital and Operating Cost Allowance allocations to working interest owners and/or other delivery facilities as well as Custom Processing Adjustment Factors for the FCC.

AC2-V4 submissions filed on Petrinex can be entered online or by batch. If a system acceptable AC2-V4 submission is not received and processed by the filing deadline (April 30th of the year following the production year to which it relates), a penalty will be assessed.

The deadline for filing an AC2-V4, for the production year 2013, is April 30, 2014.

For access to or use of Petrinex, contact the Petrinex Service Desk at 1-800-992-1144.

Custom Processing Allowance Fees Paid – Expected AC5 Reports on Petrinex

Royalty clients that have incurred and paid for compressing, gathering and/or processing gas and gas products on a fee-for service basis, in Alberta, are required to submit an AC5-V4 to the department by May 15th of the year following the production year to which it relates. This includes custom processing fees associated with freehold, purchased, and out-of-province volumes. The Expected AC5 Report provides a complete list of the Alberta Energy Regulator (AER) facilities and related Facility Cost Centres (FCCs) where the operator has allocated custom user volumes to the royalty client in Parts 6 and 10 (Custom Processing Adjustment Factor) of a Capital & Operating Cost Allowance AC2-V4 submission.

This report is generated to help royalty clients in identifying the AER facilities and FCCs that require the royalty client to file an AC5-V4. The information in the report identifies the department's records as of the file preparation date and does not reflect submissions

subsequently received and/or processed.

The Expected AC5 Report is grouped by AER Facility and related FCC. The report displays the following:

- FCC ID, FCC Name & FCC Type
- Operator ID and Name allocating custom user volumes
- Allocated Custom Processing (CP) volumes in 10^3m^3
  In addition, as of the report generation date, there are "Y" (yes) and "N" (no) indicators for the previous and current production years that identify whether:
- the department has received a valid AC5 submission for the royalty client and
- the AER facility has been reported on the AC5 submission.

If a system acceptable AC5-V4 submission is not received and processed by its filing deadline (May 15th of the year following the production year to which it relates) it is subject to penalty charges upon receipt. Please note that the absence of a company name or an FCC from these reports will not be an acceptable reason for a waiver of penalty.

The Expected Custom Processing Fees Paid (AC5) report is available in PDF, TXT and CSV formats. The Expected AC5 report will be available on Petrinex weekly from the first week of February 2014 to the last week of May 2014.

Operators of FCCs must use Petrinex to retrieve the report. Non-operators and other royalty clients that currently submit and receive hard documents will continue to receive the Expected AC5 report by mail. Electronic filers are required to submit their Allowable Cost forms via Petrinex.

The deadline for filing an AC5-V4, for the production year 2013, is May 15, 2014.

If you have any questions, please contact your Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

For access to or use of Petrinex, contact the Petrinex Service Desk at 1-800-992-1144.

F. POINTS OF CONTACT

Quick Reference

Petrinex	Petrinexsupport@Petrinex.ca
V&CR	VCR1@gov.ab.ca
	VCR2@gov.ab.ca
	VCR3@gov.ab.ca
Gas Royalty Accounts	GasRoyaltyAccounts.Energy@gov.ab.ca
Royalty Features	GasRoyaltyPrograms@gov.ab.ca

Petrinex (formerly Petroleum Registry of Alberta)

The focal point for communications regarding preparations for, access to, or utilization of Petrinex is the Petrinex Service Desk.

Contact Information:
Phone: 403-297-6111 or 1-800-992-1144
Fax: 403-297-3665
Email: Petrinexsupport@Petrinex.ca
Website: www.Petrinex.ca

Volumetric & Cost Reporting

Volumetric & Cost Reporting is structured as a Business Associate client portfolio system, which assigns a given Business Associate to one of three teams. Listed below is the portfolio breakdown along with the Volumetric & Cost Reporting Team Leads and phone numbers. The portfolios are divided by company name and not by BA ID.

Example: If your company name is the "Gas Company" you would call the C – G team at 780-644-1202

Business Associate	Phone Number and E-mail Address	Team Lead
Numbered companies, A, B, H-P	780-644-1201 VCR1@gov.ab.ca	Joyce Chen
C – G	780-644-1202 VCR2@gov.ab.ca	Nicole LeBlanc
Q – Z	780-644-1203 VCR3@gov.ab.ca	Jyoti Bhambhani

Gas Royalty Reception:	780-422-8727
Fax:	780-427-3334 or 780-422-8732
Alberta Toll Free:	780-310-0000

Hours of operation are 8:15 a.m. to 4:30 p.m. Voice messages left after 4:30 p.m. will be answered the next business day.

In situations where a company has just amalgamated or purchased another company, the general rule is to call the team that is responsible for the "Supra" business associate, or Royalty payer.

Below are some guidelines for clients who are unsure which Volumetric and Cost Reporting Team to call regarding their questions.

1. **Amalgamation/consolidation** - Call the team responsible for the "Supra" business associate (Royalty Payer).

   i.e. ABC Oil and Gas amalgamates with Zed Exploration and Zed is the amalgamator (royalty payer). When calling Volumetric and Cost Reporting regarding business for ABC Oil and Gas, you would call Team 3 (Q-Z) (780-644-1203) because Zed Exploration is now the Supra business associate and royalty payer. This rule would apply even if you were calling regarding business that is prior to the acquisition or amalgamation.

2. **Asset Purchase** - Call the team responsible for your company.

   i.e. 123 Gas purchases the assets of TSP Exploration, but not the company. When calling Volumetric and Cost Reporting regarding business for 123 Gas, you would call Team 1 (# Co., A, B, & H-P) (780-644-1201) because you have only purchased assets.

3. **Consultants/service providers** - If you have a contract to provide production accounting services to a company, call the team responsible for your client's company.
   i.e. Paul Snow Consulting Services enters into a contract with Duckback Oil and Gas and Olive Oil and Gas. Paul Snow would contact Team 2 (C-G) (780-644-1202) to discuss Duckback Oil business and Team 1 (# Co., A, B, & H-P) (780-644-1201) to discuss Olive Oil and Gas business. At the time the contract is signed, Paul Snow would have had each company notify the appropriate team that he was authorized for their company.

Management Information

All inquiries or requests that relate to royalty information (e.g. Information Letter, Information Bulletin and other Department of Energy's Natural Gas website publications) and questions related to Commercial Storage and Farm gas should be forwarded to the Management Information Team at ManagementInformation.Energy@gov.ab.ca.

Royalty Accounting

All inquiries or requests that relate to royalty accounting (e.g. Transfers, Refunds, Interest, Statement of Account, Collections and Royalty Deposits) should be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Royalty Features

All inquiries or requests that relate to royalty programs (e.g. Natural Gas Deep Drilling Program, New Well Royalty Rates and Otherwise Flared Solution Gas Royalty Waiver Program) should be forwarded to the Royalty Features team at GasRoyaltyPrograms@gov.ab.ca.

Alberta Energy Internet

Prices, Royalty Rates and Transportation Information are available on the Alberta Energy Internet address: www.energy.alberta.ca, from "Our Business", navigate to "Natural Gas", "About Natural Gas", "Prices", "Alberta Natural Gas Reference Price (ARP)". In addition, both the Gas Royalty Information Bulletins and Information Letters are also available under "Our Business", navigate to "Natural Gas", "Legislation, Guidelines & Policies".

Reference Prices and Valuation Allowances Calculation Information

Pricing & Analysis
300, 801 – 6 Avenue SW
Calgary, Alberta T2P 3W2
Telephone: 403-297-5514
Fax: 403-297-5400

Richard Stokl
Director, Gas Royalty Operations
Royalty Operations